



State of California

CALIFORNIA EMPLOYER

Fourth Quarter 2002

State's workforce programs consolidated —

The Employment Development Department (EDD) is one of several state departments, boards, and commissions that have consolidated under a newly established California Labor and Workforce Development Agency. The consolidation is intended to simplify and strengthen the operation and management of programs that protect and provide services to California's employers and workers.



programs, increased coordination of enforcement and worker disability programs now operated separately by EDD and the Department of Industrial Relations (DIR), and a more strategic approach to employment research programs. "Working within existing resources, this new Agency will improve access to employment and training programs for employers and workers alike," said Governor Gray Davis.

The new Labor Agency promises more accountability and efficiency in the state's \$4.6 billion workforce training

The Governor has appointed DIR Director Stephen J. Smith as the Acting Labor Secretary.

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Annual interest rate will be 6 percent



For the period January 1 through June 30, 2003, the annual interest will be 6 percent (.06), compounded daily. The daily interest factor will be .000164. Interest is charged on all delinquent taxes, interest, and certain penalties.

If you have any questions about the annual interest rate, please call us at 1-888-745-3886.

Do you give bonuses or stock options to your employees? —

With the passage of Assembly Bill (AB) 2065 (Chapter 488, Statutes of 2002), you may be required to withhold a different amount of California Personal Income Tax (PIT) on bonuses and stock options that you give to your employees. This applies only to stock options that are considered wages subject to PIT withholding.

If you give your employees bonuses or stock options, you should begin withholding at the increased rate no later than January 1, 2003. We will *not* impose penalties for failure to withhold at the

higher rate on bonuses and stock options paid in calendar year 2002. If the bonus or stock option is given to the employee at the same time the employee's regular wages are paid, you are *required* to treat the sum of the payments as regular wages and withhold PIT based on the regular payroll period using the PIT withholding schedules.



If the bonus or stock option is not given to the employee at the same time the employee's regular wages are paid, you may use either of the following two options:

■ Compute the amount of PIT to withhold from the bonus or stock option based on the combined regular wages and the bonus or stock option by adding the bonus or stock option to the current or most recent regular (gross) wage payment. Compute the PIT withholding on the total using the PIT withholding schedules. From that amount, subtract the PIT you withheld from the regular wages. The difference is the PIT amount you should withhold from the bonus or stock option.

OR

■ Withhold a flat 9.3 percent (.093) on the bonus or stock option without allowing for any withholding allowances claimed by the employee. Note that PIT withholding on other types of supplemental wage payments, (including, but not limited to, overtime, commissions, sales awards, and vacation pay) remains at 6 percent.

Watch the mail for your 2003 tax rate notice —

You will receive your 2003 *Notice of Contribution Rates and Statement of Unemployment Insurance UI Reserve Account* (DE 2088) by December 31, 2002.



This notice will include your 2003 UI, Employment Training Tax, and State Disability Insurance (SDI) tax rate and taxable wage limit information. Please verify that the UI taxes paid, UI benefit charges, and annual wages shown on your notice are correct.

For 2003, the UI taxable wage limit is \$7,000 per employee, and the SDI taxable wage limit is \$56,916 per employee. The maximum weekly SDI benefit will increase from \$490 to \$602, effective January 1, 2003.

If you have not received your notice by December 31, or need more information about the 2003 rates, please visit our Web site at www.edd.ca.gov/taxrte9x.htm, or call (916) 653-7795.

To find out if stock options are wages subject to PIT withholding, download the *Information Sheet: Stock Options* (DE 231SK) at www.edd.ca.gov/de231sk.pdf. If you have questions about AB 2065, visit our Web site at www.edd.ca.gov or call 1-888-745-3886.

Taxable value of meals and lodging for 2003

Wages are payments made to your employees for the services they perform. You may pay your employees by check, cash, or other medium (including meals and lodging).



Meals and/or lodging that you provide to your employees should be treated as wages for Unemployment Insurance, Employment Training Tax, and State Disability Insurance.

Meals are subject to California Personal Income Tax (PIT) withholding unless you furnish the meals to your employees for your convenience on your business premises.

Lodging is also subject to PIT withholding unless it is furnished for your convenience and the employee is required to accept lodging on your business premises as a condition of employment.

Each year, the values of meals and lodging are adjusted based on the

EMPLOYEES*		MARITIME EMPLOYEES	
Meals	Value	Licensed Personnel	Value
- Breakfast.....	\$ 1.85	- Meals.....	\$ 8.45
- Lunch.....	2.55	- Quarters.....	6.00
- Dinner.....	4.05	- Total per day.....	\$14.45
- 3 meals per day.....	\$ 8.45		
- A meal not identified as either breakfast, lunch, or dinner.....	\$ 2.95	Unlicensed Personnel	Value
		- Meals.....	\$ 8.45
		- Quarters.....	4.05
		- Total per day.....	\$12.50
Lodging Value		Fishermen	
- Value is set at 66-2/3 percent of the ordinary rental value to the public, but not in excess of \$886.00 per month or less than \$28.75 per week.		- Lodging value is \$28.75 per week and \$4.10 per day for periods of less than a week.	
* Maritime employees' values of meals and lodging are different than all other employees and are shown in the above table on the right. Lodging values for maritime employees apply only when the facilities meet specific minimum standards.			

cost-of-living indexes. Please use the values shown above for 2003.

These values do not apply where higher values of meals and lodging are stipulated in a union agreement or contract of hire,

or are required for compliance with minimum wage laws.

If you have any questions on taxable values of meals and lodging, please call us at 1-888-745-3886.

Follow these tips for trouble-free annual reconciliation

Here are some tips to help you avoid costly and time-consuming mistakes when completing your end-of-year forms:

- Double check the amounts reported before submitting your fourth quarter *Quarterly Wage and Withholding Report*

(DE 6), *Annual Reconciliation Statement* (DE 7), *IRS Employer's Annual Federal Unemployment (FUTA) Tax Return* (Form 940/940EZ), and providing *Wage and Tax Statements* (Forms W-2) to your employees.

- Use the information in the table below to reconcile your annual "Total Subject Wages," "UI Taxable Wages," "PIT Wages," and "PIT Withheld."
- If, after completing your DE 7, you realize you have underpaid your taxes, complete a *Payroll Tax Deposit* (DE 88) coupon for the amount of the underpayment. It is very important that you complete the payroll date, payment type, and payment quarter. Failure to complete these items may result in your payment being posted to the wrong quarter and/or year, and interest and penalty may be assessed.

For information on annual reconciliation, underpayments, or to request a *Tax and Wage Adjustments Form* (DE 678), call 1-888-745-3886.

For information on Total Subject Wages and PIT Wages, get the *Information Sheet: PIT Wages Reported on the Quarterly Wage and Withholding Report* (DE 231PIT) from our Web site at www.edd.ca.gov/tax/form.htm or by calling 1-888-745-3886.

ANNUAL RECONCILIATION	All Items Within Each Box Below Should Agree*
■ Total Subject Wages	<ul style="list-style-type: none"> ■ Earnings/payroll records ■ DE 6s (Item M) - all 4 quarters ■ DE 7 (Item C)
■ UI Taxable Wages <i>Note: DE 7 "UI Subject Wages" may be different than Form 940/940EZ "Total Taxable Wages" if you have exempt employees.</i>	<ul style="list-style-type: none"> ■ DE 7 (Item D2) ■ IRS Form 940/940EZ (Line 5)
■ PIT Wages	<ul style="list-style-type: none"> ■ Earnings/payroll records ■ DE 6 (Item N) - all 4 quarters ■ Forms W-2 (Box 16)
■ PIT Withheld	<ul style="list-style-type: none"> ■ Earnings/payroll records ■ DE 6 (Item O) - all 4 quarters ■ DE 7 (Item G) ■ Forms W-2 (Box 17) plus Forms 1099R (Box 10)
* If amounts do not agree, find the error and correct all forms with incorrect amounts. If an error was made on a previously filed DE 6, complete a DE 678 to correct the quarter with the error.	

Time to prepare your Forms W-2 wage and tax statements

As an employer, you are required to prepare a federal *Wage and Tax Statement* (Form W-2) for each of your employees.

For 2002, you must provide your employees with Form W-2 by January 31, 2003. Please prepare the Form W-2 on the federal/state four-part paper form.

What Information Do I Include?

In addition to the federal information required, you must include California Personal Income Tax (PIT) wages, and the PIT and State Disability Insurance (SDI) withheld in the following Form W-2 boxes:

■ **In Box 16** (State wages, tips, etc.)

Enter: California PIT wages.

■ **In Box 17** (State income tax)

Enter: California PIT withheld.

■ **In Box 19** (Local income tax)

Enter: The abbreviation "CASDI" and SDI withheld.

Or: If Box 19 has local taxes, use "Box 14-Other."

Or: If **no** boxes are available, you are required to provide your employees with a separate written statement containing:

- Your business or entity name, address, and federal and EDD employer numbers.
- The employee's name, address, and Social Security number.

- The amount of disability insurance deductions actually withheld and/or paid directly by you under the State plan or the amount actually withheld under a voluntary plan.

- If the wages were **not** subject for SDI, show "CASDI 0" (zero).

- If you pay SDI taxes **without** withholding SDI from the employee's wages, you should show the SDI taxes as if withheld and increase the amount you report according to the formula as shown on the *Information Sheet: Social Security/Medicare/SDI Taxes Paid By an Employer* (DE 231Q).

To obtain a DE 231Q, visit EDD's Web site at www.edd.ca.gov/tax/form.htm#Publications, access our Fax-on-Demand at 1-877-547-4503, or call us at 1-888-745-3886.

- If you are covered under an authorized Voluntary DI Plan, enter "VPDI" and the VPDI amount actually withheld.

Other Key Factors of Form W-2

Other important factors to remember as you prepare your 2002 Forms W-2:

- Generally, the amount reported as California PIT wages on Form W-2 (Box 16, State wages) is the same as the federal wages (Box 1). However, the amounts may differ based on:

- Federal and California differences in the definition of "employee" and "taxable wages."
- Residency of the employee.
- If the employee performs services in more than one state.

- If the employee performs services in more than one state, contact the other state(s) for guidance on how to complete the Form W-2 for that state.

- If you discover an error on a previously issued Form W-2, refer to the IRS publication *Instructions for Forms W-2c and W-3c* for information on completing an IRS *Corrected Wage and Tax Statement* (Form W-2c).

For More Information

For additional information on Form W-2 reporting requirements or instructions on completing Form W-2, please refer to the IRS publications *Employer's Tax Guide* (Publication 15, Circular E) and *2002 Instructions for Forms W-2 and W-3*, respectively. To obtain these publications, access IRS' Web site at www.irs.gov, or call IRS at 1-800-829-3676.

For more information on completing the "State" information on Form W-2, please contact us at 1-888-745-3886. (Note: Do **not** send the "State" copies of Forms W-2 and Forms W-2c to the State of California (EDD or FTB). However, you must continue to provide Forms W-2 and W-2c to your employees and IRS.)

Get valuable information at an upcoming Small Business Fair

You are invited to attend one of our upcoming Small Business Fairs. They are held throughout California and offer workshops on federal, state, and local tax and business requirements.



For further details, see the State Board of Equalization Web site at www.boe.ca.gov/sutax/tpsched.htm. These events are free, but reservations are recommended if you plan to attend a workshop.

■ **Norwalk**

Rio Hondo College
February 14, 8:30 a.m. – 3 p.m.
Call: (562) 466-1539
E-mail: norsmbus@boe.ca.gov

■ **Chico**

Holiday Inn
February 21, 9 a.m. – 4 p.m.
Call: (916) 227-1882
E-mail: chicotxd@boe.ca.gov

■ **Riverside (Small Business Tax Day)**

Riverside Convention Center
March 21, 8 a.m. – 4 p.m.
Call: (909) 680-6705
E-mail: rvtaxday@boe.ca.gov

■ **Fresno**

Radisson Conference Center
April 9, 8:30 a.m. – 3:30 p.m.
Call: (559) 248-4200
E-mail: fretxday@boe.ca.gov

■ **Bakersfield**

Holiday Inn Select
May 13, 9 a.m. – 4 p.m.
Call: (661) 334-3909
E-mail: baktxday@boe.ca.gov

■ **Bay Area (Oakland)**

Elihu M. Harris State Building
May 16, 8:30 a.m. – 2:30 p.m.
Call: (510) 622-4055
E-mail: basmbus@boe.ca.gov

California law conforms to federal income tax treatment

As reported in the fourth quarter 2001 and third quarter 2002 issue of this newsletter, the federal Economic Growth and Tax Relief Reconciliation Act of 2001 (Public Law 107-16) made changes to the Internal Revenue Code (IRC) for employer-provided adoption assistance programs (under IRC Section 137) and payments to certain qualified scholarships (under IRC Section 117).



The articles noted that California law did not conform to the federal income tax treatment, and therefore these payment types were subject to California Personal Income Tax (PIT) withholding and were reportable for PIT wages.

In September 2002, Senate Bill (SB) 219 was passed to bring California into conformity with federal Public Law 107-16 with respect to employer-provided adoption assistance programs and payments to certain qualified

scholarship programs. Additionally, SB 219 brings California into conformity for California PIT withholding and PIT wages with the federal Victims of Terrorism Tax Relief Act of 2001 (Public Law 107-134), which made changes to the IRC relating to certain death benefits, qualified disaster relief payments, and disability payments.

For more information on SB 219, visit our Web site at www.edd.ca.gov/taxpen.htm or contact us at 1-888-745-3886.

EDD joins new state labor and workforce development agency

(continued from page 1)

"Linking these state agencies together will contribute greatly to our efforts to ensure that California's workforce is healthy, safe, well-trained, and competitive in today's world economy," said Smith.

The new agency also will improve California's ability to achieve other important goals, which include:

- Leverage its resources to match worker training programs with regional labor market needs to create skilled, middle-class jobs that offer a secure future to Californians.
- Build on the successful One-Stop Taxpayer Service Centers operated by

EDD, the Franchise Tax Board, and the Board of Equalization by adding other services for employers and workers, such as information on job training opportunities, labor standards, Workers' Compensation, and safe working conditions.

- Coordinate and manage information and data on the workforce and economy with a partnership between DIR's Division of Labor Statistics and Research and EDD's Labor Market Information Division.
- Coordinate the apprenticeship programs in DIR with the employment and training programs at EDD to meet the growing need and demand for skilled trade and craft workers.

The new labor agency is comprised of the following departments and boards:

- EDD (including the California Unemployment Insurance Appeals Board and Employment Training Panel)
- DIR (including the California Apprenticeship Council, Cal/OSHA Appeals Board, Cal/OSHA Standards Board, Commission on Health and Safety and Workers' Compensation, Industrial Medical Council, Industrial Welfare Commission, and Workers' Compensation Appeals Board)
- Workforce Investment Board
- Agricultural Labor Relations Board

Make note of these legal holidays for 2003

To ensure the timeliness of your 2003 tax payments and reports, please refer to the chart below for the date each legal holiday will be observed in the new year. For specific payroll tax deposit requirements, refer to the *California Employer's Guide* (DE 44).

If a payment or report due date falls on a Saturday, Sunday, or legal holiday, the due date is extended to the next business day. For more information or to obtain a *California Employer's Guide*, visit our Web site at www.edd.ca.gov/taxform.htm or call us at 1-888-745-3886.

HOLIDAYS OBSERVED	DATE in 2003	NEXT BUSINESS DAY
New Year's Day	January 1	January 2 (Thursday)
Martin Luther King Jr. Day	January 20	January 21 (Tuesday)
Lincoln's Birthday	February 12	February 13 (Thursday)
Presidents' Day	February 17	February 18 (Tuesday)
Cesar Chavez Day	March 31	April 1 (Tuesday)
Good Friday*	April 18	April 21 (Monday)
Memorial Day	May 26	May 27 (Tuesday)
Independence Day	July 4	July 7 (Monday)
Labor Day	September 1	September 2 (Tuesday)
Calif. Admission Day*	September 9	September 10 (Wednesday)
Columbus Day	October 13	October 14 (Tuesday)
Veterans Day	November 11	November 12 (Wednesday)
Thanksgiving Day & day after	November 27 & 28	December 1 (Monday)
Christmas Day	December 25	December 26 (Friday)

*Note: EDD offices are open for business on this legal holiday.

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Governor: Gray Davis
Acting Agency Secretary: Stephen J. Smith
EDD Director: Michael S. Bernick
Employment Development Department
P.O. Box 826880
Sacramento, CA 94280-0001

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Kevin M. Callori, Editor

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